GOVERNMENT OF INDIA
DEFENCE
LOK SABHA

UNSTARRED QUESTION NO:1056
ANSWERED ON:20.08.2007
OUTSOURCING OF DEFENCE PRODUCTION SYSTEM
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Will the Minister of DEFENCE be pleased to state:

(a) whether the defence industry is going to be the biggest source of outsourcing for the multinational companies;

(b) if so, the details thereof and policy, if any, made in this regard;

(c) whether the Government has given permission to the defence equipment manufacturers and ordnance factories to set up joint ventures with the foreign companies ;

(d) if so, the names of the foreign companies with which joint ventures are proposed to be set up;

(e) whether any assessment has been made to reduce the yearly expenditure on equipment imported from abroad; and

(f) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF DEFENCE PRODUCTION (RAO INDERJIT SINGH)

(a) & (b):The Indian defence industry is expected to be a significant source for outsourcing for the multinational companies by way of discharge of their offset obligations. In terms of the procedure for implementing offset provision notified in Defence Procurement Procedure-2006, 30% of the indicative cost of Capital acquisitions- categorized as `Buy Global` and 30% of the foreign exchange component in `Buy & Make` category acquisitions will be the minimum required offset. The offset obligations shall be discharged directly by any combination of the following methods:-

(i) Direct purchase of, or executing export orders for, defence products and components manufactured by, or services provided by Indian defence industries.

(ii) Direct foreign investment in Indian defence industries for industrial infrastructure for services, co-development, joint ventures and co-production of defence products.

(iii) Foreign direct investment in Indian organisations engaged research and defence R&D as certified by Defence Offset Facilitation Agency (DOFA).

(c)to(f):While defence equipment manufacturers in the public and private sector can, with prior approval of the Government, set up joint ventures subject to a cap of 26% on FDI in defence sector, Ordnance Factories, being a Government Department, can have similar arrangements in the form of MOUs with foreign companies for co- development and co-production of defence items.

Defence PSUs enjoying the status of Nav Ratna are empowered to establish financial joint ventures and wholly owned subsidiaries in India or abroad subject to the conditions specified by the Department of Public Enterprises. Government`s endeavour is to reduce the yearly expenditure on import of defence equipment to the extent possible, inter alia, by encouraging indigenisation and joint ventures in the defence sector.